

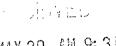
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SOAH DOCKET NO. 473-21-0538 PUC DOCKET NO. 51415



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SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO OFFICE OF PUBLIC UTILITY COUNSEL'S THIRD REQUEST FOR INFORMATION

Question No. OPUC 3-7:

Please refer to the Direct Testimony of Mr. David A. Hodgson, pages 24-25. Please confirm or deny that SWEPCO or SWEPCO's parent company requested a private letter ruling from the Internal Revenue Service concerning the proposed treatment of the Excess Deferred Federal Income Tax ("EDFIT") associated with the Net Operating Loss. If confirm, please provide a copy of the request and any response received from the IRS. If deny, please provide an example of any other jurisdiction where this approach has been used and adopted by the regulating entity.

Response No. OPUC 3-7:

Deny. Neither SWEPCO nor SWEPCO's parent company has requested a private letter ruling from the IRS concerning the proposed treatment of excess deferred federal income taxes associated with the net operating loss carryforward (NOLC). The Company relied on previous PLR's (see Exhibits to Witness Hodgson's testimony) and revenue procedures issued by the IRS as the basis of the proposed treatment. The IRS's most recent relevant guidance is Revenue Procedure 2020-39 which was issued August 14, 2020. This revenue procedure provides guidance under §168 of the Internal Revenue Code to clarify the normalization requirements following the Tax Cuts and Jobs Act.

Revenue Procedure 2020-39 specifically provides that it is intended to be consistent with overall pre-existing deferred tax normalization rules. The series of PLR's provided as exhibits to the testimony of Mr. Hodgson all specify a "with-and-without" or "last dollar deducted" approach as the only method which ensures compliance with normalization requirements. The Company performed a with-and-without test and determined that the balance of the NOLC was attributable to accelerated tax depreciation and therefore subject to the normalization requirements.

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